

Was Weimar democracy undermined by the world economic depression?

CHAPTER OVERVIEW

'When America sneezes, Europe catches a cold.' This saying was especially true in Germany after the American Stock Exchange crash of October 1929. In fact, it would be fairer to say that after 1929 Germany caught pneumonia. The massive impact of the Great Depression (also known as the World Slump) on Germany is the essential context for the collapse of the Weimar Republic and the rise of Hitler. Such is its importance that the historian William Carr wrote that: 'It is inconceivable that Hitler could ever have come to power had not the Weimar Republic been subjected to the unprecedented strain of a world economic crisis.' To assess the accuracy of this view we will investigate:

- A** How was Germany affected by the slump? (pp. 102–4)
- B** How did German governments react to the slump? (pp. 104–5)
- C** How did German voters react to the slump? (pp. 106–7)
- D** Review: Was Weimar democracy undermined by the world economic depression? (p. 108)

ACTIVITY

- I
 - a) What would you expect to happen in a country if it experienced an economic depression or slump? Read the lists of possibilities in the table and choose either A or B from each pair.
 - b) Discuss your choices with the rest of the class.
 - c) Look at the data on page 102 to see what happened in Germany 1929–32.

Economic developments	
A	B
Rise in unemployment	Fall in unemployment
Rise in production	Fall in production
Inflation	Fall in prices
Rise in wages	Fall in wages
Rise in world trade	Fall in world trade
Rise in government income	Fall in government income
Rise in government debt	Fall in government debt
Political effects	
A	B
Increased co-operation amongst political parties	Greater divisions within coalition governments
Increased votes for moderate parties	Increased votes for extreme parties
Increase of extreme nationalism	Decline in nationalism
Increase in despair	Growing optimism

A How was Germany affected by the slump?

FOCUS ROUTE

- 1 Explain briefly what happened to each economic indicator in Source 6.1.
- 2 What does Source 6.2 reveal about the government's response to the slump?
- 3 Look at Source 6.3. How was Germany affected compared to other countries?
- 4 List the effects of the slump on the German economy.

SOURCE 6.1 Key indicators of the state of the German economy, 1928–33

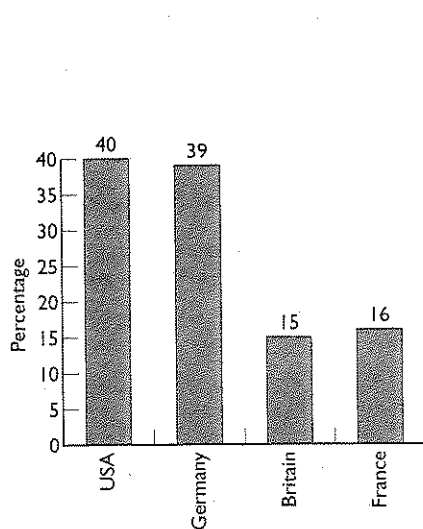
Aspect	1927	1928	1929	1930	1931	1932	1933
Industrial production (1913 = 100)	110	113	114	99	82	66	74
Exports (bn RM)		12.3	13.5	12.0	9.6	5.7	4.9
Imports (bn RM)		14.0	13.5	10.4	6.7	4.7	4.2
Unemployment (m)		1.4	1.8	3.1	4.5	5.6	4.8
Wages (nominal) 1913 = 100	145	164	169	155	137	113	115
Agricultural prices 1913 = 100	138	132	126	107	89	77	84
Industrial prices 1913 = 100		159	157	154	142	118	111
Government income bn RM*		9.0*				6.6*	6.8*

* Income crosses year, i.e. 1928 figure covers 1928–9, etc.

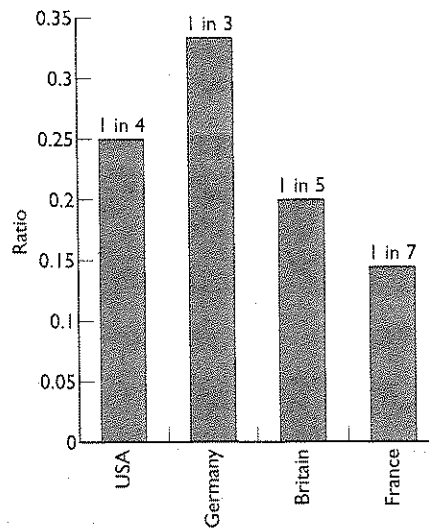
SOURCE 6.2 Government expenditure: per capita state expenditure (at all levels, i.e. federal, states, local) at 1900 prices (M) (i.e. so fluctuations in prices are taken into account)

Items	1913	1925	1929	1932
Economy, e.g. transport	17	16	22	18
Welfare services	20	65	102	106
Public housing	0.4	10	13	4
Education	17	20	28	24
Interest payments on National Debt	6	1	4	7

SOURCE 6.3 International comparisons



Drop in national income in 1932 compared to 1929 (%)



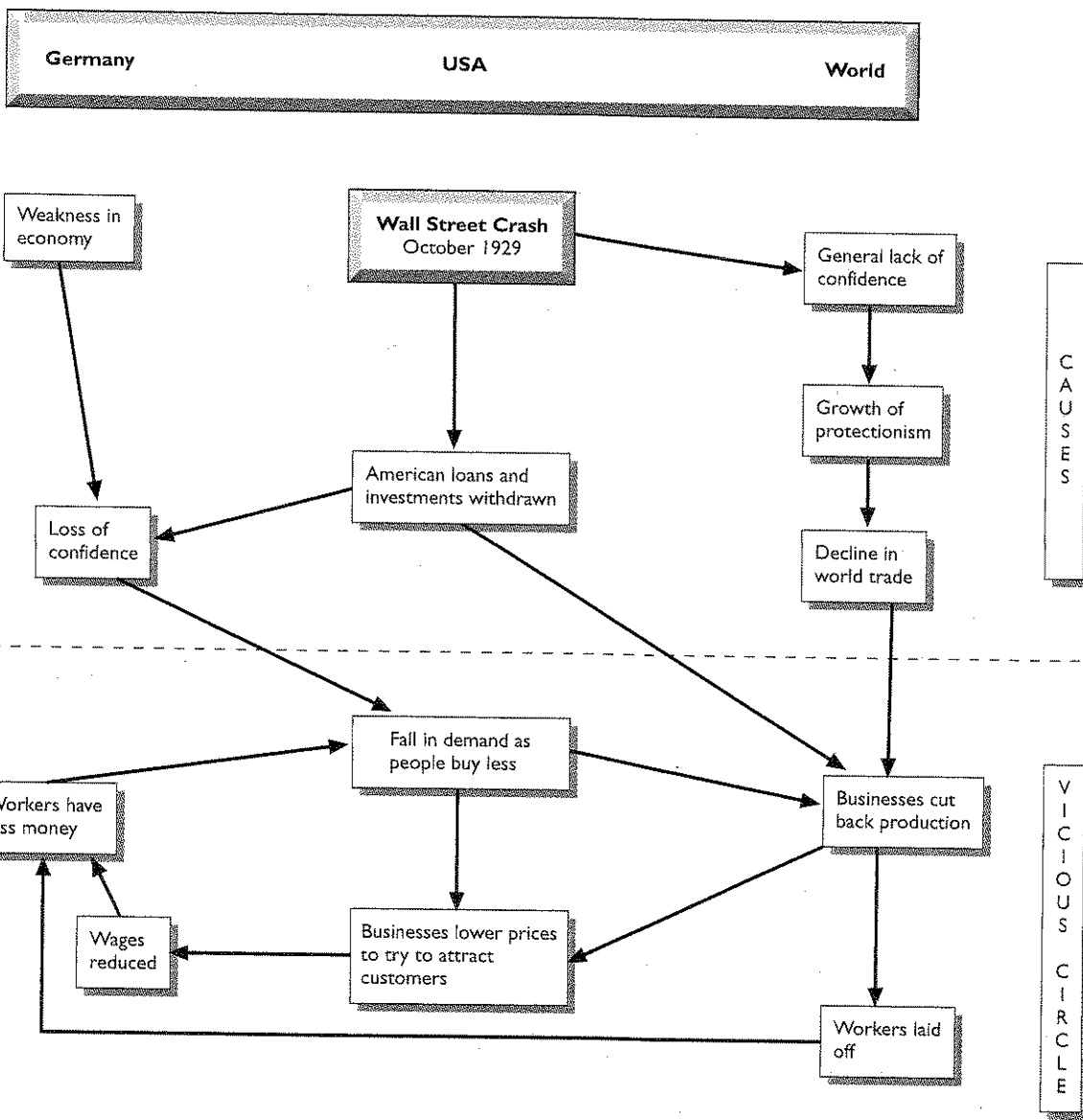
Ratio of unemployed in 1933

The effects of the slump were widespread. Many farmers had already been hit by high interest rates and falling agricultural prices. Their position worsened and by 1932 18,000 farmers had gone bankrupt. Industry equally suffered from the depression with 50,000 businesses going bankrupt between 1930 and 1932. The crisis had worsened in 1931 when five major banks closed down.

Just as significant was the fact that by 1932 over 6 million people were unemployed. For most, it was a disaster. Not only did they lose the income that they relied on, but they also felt unwanted and rejected, which had a deep psychological effect on many. In addition, millions of other people were affected by the job losses. Members of workers' families were hard hit, and traders suffered because of reduced demand for their goods. Even those who managed to keep their jobs had their wages reduced or lived in fear of losing their jobs.

■ 6A How the slump became a vicious circle

The depression in Germany after 1929 is often blamed on external events, chiefly the Wall Street Crash. However, as this chart shows, the internal situation in Germany played a major part in the crisis.



Offstage: the Government

No government was prepared to intervene in a major way to reflate the economy. Müller's coalition government 1928-30 could not agree on cuts. Brüning's government 1930-2 tried to use the slump for its own political and foreign policy purposes.

The component parts of the economic crisis

- a) Agriculture: many farmers, hit by high interest rates, were going bankrupt by 1927; they were then hit by falling prices.
- b) Industry suffered a trade recession from 1929 on.
- b) Finance was hit by a banking collapse in the summer of 1931 when five banks went bankrupt.

■ Learning trouble spot

The Great Depression and the fear of inflation

- 1 Many students understand that Germany suffered major economic problems in 1929–33 but remember the inflationary crisis of 1923 and assume that this also happened in 1929. In fact, prices actually fell. The economic crisis of 1929–33 was a depression or slump: that is, industries suffered from a loss of demand and laid off workers. The chief problem was unemployment not inflation. In fact, the lack of demand tended to lower prices.
- 2 Other students understand the above, but then argue that inflation was thus unimportant in the collapse of the Weimar Republic. This view is misleading. Although the 1923 inflationary crisis was over by 1924 and there was no inflationary problem between 1929 and 1933, the inflation of 1923 still played a role in the slump because the government (along with most Germans) was determined to avoid another inflationary crisis. This was a major influence on its policies during the slump. In addition, the bitter memories of hyperinflation still influenced voting behaviour.
- 3 Some students think that all the problems of the Great Depression developed instantly in 1929. In reality, the depression in Germany was not a sudden event resulting from the Wall Street Crash. There had been major economic problems before October 1929, as you saw in Chapter 3, and these and other problems kept accelerating for two years after October 1929. Even in 1931 most politicians expected the economy to recover naturally, as it had from the 1926 downturn. However, in the summer of 1931 a major banking crisis deepened the slump and particularly hit the middle class. Depression was thus an escalating problem from late 1929 to 1932.
- 4 Some students believe that all foreign funds were taken from Germany right after the Wall Street Crash in October 1929. Foreign investors could not normally withdraw their money immediately but had to wait until the agreement ended. (Many of these agreements were short term, for example for two years, which allowed quicker withdrawal.) The biggest withdrawal of investment actually occurred late in 1930, partly as a reaction to the success of extremist parties in the September elections.

B

How did German governments react to the slump?

FOCUS ROUTE

- 1 Why was it difficult for Weimar governments to follow a policy of intervention in the economy?
- 2 What measures were taken to reduce the impact of the slump?
- 3 How effective were these measures?

ACTIVITY

As a government, you need to decide how to tackle the problems of the economy. Will you try to break out of the vicious circle by reflating the economy?

- 1 Which of the following two strategies would you adopt? Look closely at the individual policies and identify the benefits and dangers of each.
- 2 Explain your choice, referring to:
 - a) individual policies
 - b) past events in Germany
 - c) possible political consequences of your actions.

Strategy 1	Strategy 2
A general policy of non-intervention, waiting for a natural recovery, as in 1926. Give priority to maintaining government finances to keep confidence in the currency	Intervention to assist economic recovery. Use deficit financing (see page 73) to stimulate demand, help recovery and reduce people's misery
<ol style="list-style-type: none"> a) Cut welfare benefits b) Cut state employees' wages c) Raise welfare insurance contributions d) Raise taxes e) Argue that Germany cannot pay reparations 	<ol style="list-style-type: none"> f) Stimulate the economy by starting a programme of PUBLIC WORKS g) Maintain the rates of unemployment relief and wages h) Extend welfare to those not covered i) Borrow money j) Print money

You might have expected the German government to take a range of actions to help the economy recover. However, like the governments of most other countries hit by the slump, for a long time it did very little. This was partly due to the widespread international belief that governments were fairly powerless to help. There were also particular factors operating in Germany:

- Germany had recovered from the minor slump of 1926 without the government taking action.
- It was hard for a coalition government to agree on action, particularly if this called for sacrifices. In March 1930 the Müller SPD-led government collapsed when it failed to agree on what cuts in unemployment relief to make.
- Most crucially, the government was terrified by the thought of a recurrence of the hyperinflation crisis of 1923. It believed that spending its way out of the crisis (for example, by maintaining welfare levels and increasing expenditure on public works) without raising taxes could provoke another inflationary crisis.
- Legal restrictions on the Reichsbank (as part of the Dawes and Young plans) meant it could not greatly increase the amount of money printed nor devalue the mark.
- The government found it difficult to borrow money. Many potential German investors had lost their savings in 1923 and were unable or reluctant to lend money. Foreigners shared this lack of confidence in German finances. Foreign governments who might have made loans insisted on terms that were unacceptable to the government.
- Evidence now suggests that Brüning (Chancellor, 1930–2) deliberately allowed the economic crisis to continue as part of his campaign to get reparations ended and to dismantle the welfare state.

The main approach of governments after 1929 was to reduce expenditure to cope with the fall in tax revenue as economic activity declined. For example, between 1928 and 1933 the budget for war victims' pensions was cut by one-third, embittering thousands of people who felt betrayed by the system. They voted accordingly. The economic crises made governments appear weak and divided. Blame fell not only on individual politicians and parties but on the whole democratic system of the Weimar Republic.

Eventually, but too late, the government became more interventionist. Once reparations were suspended in 1931 (see page 82), Chancellor Brüning set up some public works schemes and his successor Papen began to allocate unused land to dispossessed peasants and workers. But these measures were a classic example of 'too little, too late'. The economy did start to improve late in 1932, but this was too imperceptible to influence the voters. It was to be Hitler who built on this recovery and took all the credit.

Protectionism

During the Depression, many governments faced demands for measures to protect their national economy. One method was to restrict imports from other countries, especially if they were cheaper than home-produced goods. This was called protectionism, a policy of protecting your own industries and farms from foreign competition (see page 73). It was a break from free trade policies, where countries trade with each other without artificial restrictions. Brüning adopted several protectionist measures.

The normal form of protectionism was to impose taxes on imported goods to make them more expensive; or to impose restrictions on the number of imported goods. There were, however, problems with such an approach. Other countries might retaliate and adopt similar moves against your exports. This could harm parts of your economy that were dependent upon exporting goods. Also, moves which put up the cost of goods, especially food, would be unpopular with consumers. Different groups also made conflicting demands on governments. Whereas farmers wanted high food prices, workers wanted low food prices. Industries that exported goods favoured free trade, whereas industries and farms supplying the home market tended to want protectionist policies.

ACTIVITY

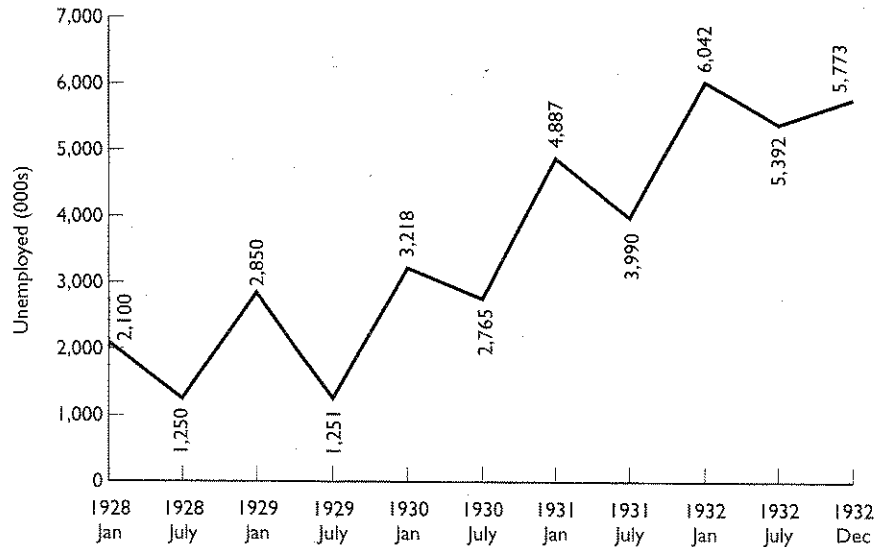
- 1 Study the voting figures in Source 3.3 on page 63. Select evidence to support the view that the slump weakened support for Weimar democracy.
- 2 'Increased unemployment led to increased support for extremism in Germany.' Do Sources 6.4–8 prove this?



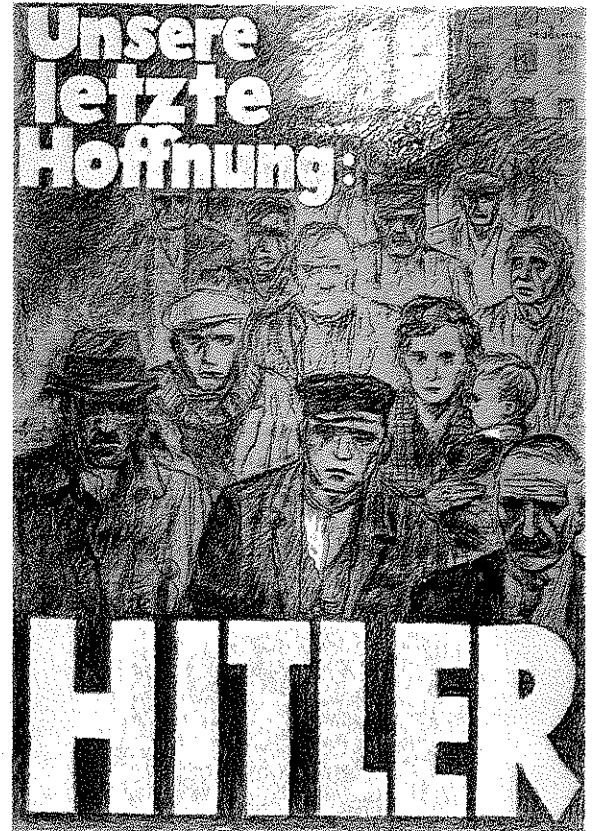
How did German voters react to the slump?

By the winter of 1932 about one-third of the German workforce was unemployed. This scale of unemployment overwhelmed the new unemployment insurance scheme. An increasing number of workers had to be given temporary relief, and were then forced back onto local authority handouts. Many were forced out of their homes, and lived in shanty towns. Mass unemployment had a great impact on the views of all Germans and how they consequently voted. Between 1930 and 1932 there were five major national elections, as well as numerous state elections. The effect of the slump can clearly be seen in German voting behaviour.

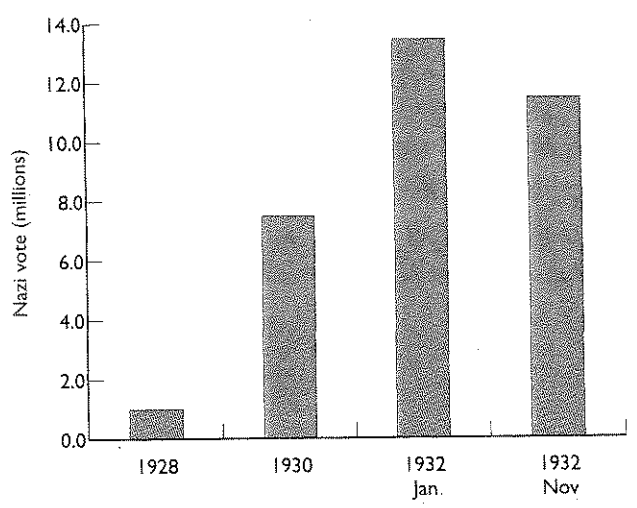
SOURCE 6.4 Unemployment 1928–32



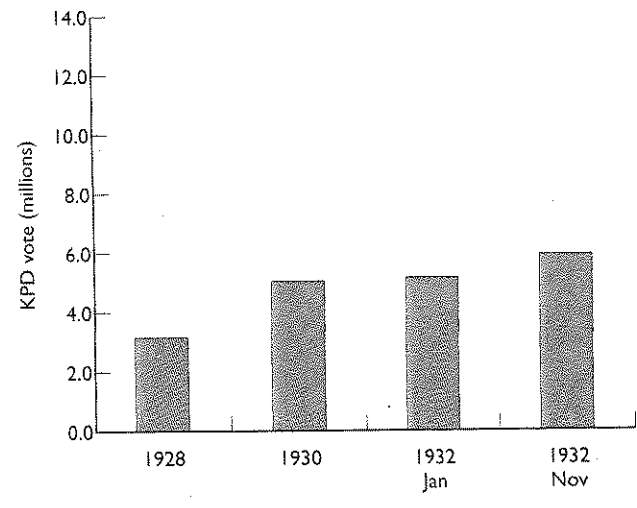
SOURCE 6.5 'Our last hope: Hitler.' A Nazi election poster from 1932



SOURCE 6.6 Nazi vote in Reichstag elections 1928-32



SOURCE 6.7 KPD vote in Reichstag elections 1928-32



SOURCE 6.8 'Open the factories': a communist poster from 1932



D Review: Was Weimar democracy undermined by the world economic depression?

The slump had a major effect on the Weimar Republic. It induced a general feeling of gloom and reinforced many Germans' hostility to what they saw as a feeble and failing democratic system. As we shall see, it contributed in March 1930 to the fall of the last Weimar government (Müller's SPD coalition) that had a majority in the Reichstag. In September 1930, it led to a large increase in the number of anti-democratic deputies (especially the Nazis) in the Reichstag, a trend that continued in 1932. This meant that it became virtually impossible for any government to gain the support of the Reichstag, and parliamentary government declined.

Some historians argue that the Weimar Republic was fundamentally flawed, containing major weaknesses even before the impact of the slump. Others argue that it was the slump that killed a system just beginning to establish itself. Most would agree, however, that the economic effects of the slump reduced the chances of Weimar democracy surviving to virtually nil, even if it was still not certain that a Nazi government would take power.

ACTIVITY

Complete a spider diagram to show what you think were the main consequences for Germany of the economic slump.

KEY POINTS FROM CHAPTER 6: Was Weimar democracy undermined by the world economic depression?

- 1 Germany's economy was already suffering difficulties before 1929 and was heavily dependent on American loans, many of which could be withdrawn.
- 2 From October 1929, Germany was badly hit by the effects of the Wall Street Crash.
- 3 Between 1929 and 1932 production nearly halved and unemployment rose to 6 million.
- 4 Governments were terrified of sparking off inflation if they spent extra money, and so took little action to counter the Depression.
- 5 The slump led to growing support for extreme parties in the 1930 and 1932 elections.